CalPERS
Investment Office
P.O. Box 2749
Sacramento, CA 95812-2749
Telecommunications Device for the Deaf - (916) 795-3240
(916) 795-3400

February 14, 2005

AGENDA ITEM: 7a(7)

TO: MEMBERS OF THE INVESTMENT COMMITTEE

I. SUBJECT: Corporate Governance – Environmental Strategy

II. PROGRAM: Global Equity

III. RECOMMENDATION: Implement four corporate governance initiatives with the objective to improve transparency and timely disclosure of environmental data.

IV. ANALYSIS:

<u>**Executive Summary**</u>

The Investment Committee directed staff to recommend a corporate governance strategy that will address increasing environmental risks to the portfolio and the need for regulation in the marketplace. With adequate, accurate and timely data transparency, shareowners are able to more effectively make investment decisions by taking into account the environmental practices of the companies in which we invest. Therefore, staff is recommending the following four initiatives to facilitate the improvement of disclosure on green house gas emissions ("GHG") and timely reporting of environmental data in portfolio companies:

1) Sign onto the Carbon Disclosure Project.
2) Support GHG data transparency within the auto industry, including support of shareholder proposals and potential Focus List candidates.
3) Explore opportunities to improve GHG data transparency within the electric power/utilities industry.
4) Recognize corporate disclosure "Best Practices".

Staff believes existing corporate governance resources can effectively facilitate these four initiatives; however, current staffing is insufficient to do more at this time.

Background

On February 3, 2004, California State Treasurer Phil Angelides launched the Green Wave Environmental Investment Initiative (Attachment 1) in an effort to bolster financial returns, create jobs and clean up the environment. The goal of the Green Wave Initiative is to improve long-term financial returns for pensioners through investments in the environmental technology sector, while also reducing the risks to the pension funds posed by environmental liabilities. Treasurer Angelides called upon CalPERS to implement a four-pronged plan to support this initiative. One of the four recommendations urged CalPERS to encourage companies to provide meaningful, consistent, and robust reporting of their environmental practices, risks, and potential liabilities.

On November 17, 2004, CalPERS held an Environmental Workshop to update the Investment Committee on staff's progress towards implementing environmental investment initiatives in Private Equity, Real Estate, Global Equity and Corporate Governance. Corporate Governance staff's presentation summarized the following: (1) the scope of environmental issues affecting shareowner activities; (2) a historical framework for shareholder proposal activity on environmental issues; (3) a range of alternatives shareowners could utilize to improve disclosure; and (4) a panel discussion to explore potential future steps from a governance standpoint. It should be noted that data presented at the workshop was inconclusive, and mixed at best, as to whether environmental factors generate positive alpha in equity investment portfolios. However, staff believes devoting Corporate Governance resources to support improved disclosure in the marketplace in which CalPERS currently invests can better enable investors to assess risks and quantify potential liabilities.

At the Environmental Workshop, California State Controller Steve Westly requested (Attachment 2) CalPERS take a proactive approach to the environmental issue and suggested three areas in which it could do so. Controller Westly recommended CalPERS consider the following: 1) sign on to the European Union based Carbon Disclosure Project, an international initiative to improve the transparency of business risk associated with climate change; 2) host a roundtable with other financial industry investment partners to discuss the impact of carbon emissions regulations on public equity markets; and 3) advocate for a West Coast Fiduciary Conference on climate risk to discuss the fiduciary's role in evaluating the risks and opportunities associated with climate change.

Staff believes improved data transparency would help long-term risk assessment in the companies in which CalPERS invests. Therefore, staff recommends supporting a four-part corporate governance environmental strategy ("Strategy") through four initiatives to improve environmental data transparency and timely disclosure.

Initiative 1: Support – Carbon Disclosure Project

The Carbon Disclosure Project ("CDP") is a European based project attempting to improve environmental data transparency and timely disclosure. Its mission is to inform investors of the significant risks and opportunities presented by climate change while informing publicly traded companies of shareholder concerns regarding the impact of carbon emissions on long-term company value.

To support its mission, the CDP uses a process that encourages investment firms, corporations, and other interested groups to be signatories on an annual information request to the Financial Times 500 ("FT500") companies asking for investment-relevant data concerning carbon emissions. Representing more than $10 trillion in assets, 95 signatories signed on to the 2004 information request. Attachment 3 contains a copy of the 2004 information request letter.

Staff recommends CalPERS become a signatory in 2005. The number of 2005 signatories has increased to 139 participants. While CalPERS will not be able to sign on to the initial 2005 information request as the firm deadline for signatories was January 31, 2005, staff has confirmed that CalPERS can become a 2005 signatory by signing on to a reminder letter with the other 139 signatories submitted to the FT500 this upcoming April.

In addition, staff seeks delegation to sign on to future CDP projects and communications on a case-by-case basis.

Initiative 2: Improve Data Transparency – Auto Industry

As a shareowner, CalPERS has a number of tools by which obtaining adequate, accurate and timely data transparency can be accomplished. Two such tools that fall within CalPERS right as a shareowner include (1) directly requesting such data, or (2) utilizing the shareowner proposal process.

Last December, the Investment Committee directed staff to send a letter to the Alliance of Automobile Manufacturers ("Alliance") requesting a meeting to provide information regarding their approach to meeting competitive market demands and emissions regulation. Alliance Chief Executive Fred Webber responding on behalf of all nine Alliance members declined CalPERS' invitation to meet and share the requested information.

Addressing the same issue, shareholder proposals (Attachment 4) have been filed this year at Ford and General Motors requesting a report on how each company will (1) ensure competitive positioning based on emerging near and long-term GHG regulatory scenarios, (2) comply with California's GHG standards, and (3) reduce GHG emissions from each of their national fleet of vehicle products by 2014 and 2024.

Consistent with CalPERS' routine support for proposals requesting information that poses no long-term harm, staff intends to vote "For" both 2005 shareholder proposals as each proposal facilitates the improvement of data transparency and timely disclosure without posing long-term harm to either company.

Staff has worked closely with the State Controller's Office on the issue of auto emissions and recommends taking the following additional steps consistent with Controller Westly's prior correspondence to the CalPERS Board:

a) Submit letters to both Ford and General Motors communicating CalPERS' vote intentions on the shareholder proposals that have been filed in 2005 and encourage the boards at both companies to comply with the specific requests.

b) Hire a proxy solicitor to support both proposals.

c) Identify opportunities to submit and solicit support of shareholder proposals at the other seven auto alliance members should filing dates permit.

d) Identify two or three of the nine auto companies that could be engaged by CalPERS staff as part of the preliminary Focus List process.

<u>Initiative 3: Improve Data Transparency – Electric Power/Utilities Industry</u>

The effects of green house gas emissions on climate change from the electric/utilities industry ("Utilities") are quickly becoming an area potentially in need of greater data transparency and disclosure. A number of industries have been identified as GHG emitters; however, research indicates that the Utilities industry contributes to one-third[1] of the total global GHG emission. One strategy to address this industry would be to collaborate with like-minded investors and other interested parties to support and encourage disclosure of environmental liabilities and data by companies and regulators within the Utilities industry.

Staff recommends working with CalSTRS staff to explore the viability and development of a GHG reporting project that focuses on improving adequate, accurate and timely data transparency within the Utilities industry. The objective would be to identify improved reporting opportunities, effective means of transitioning such a project to an external entity such as the California Climate Action Registry[2] for implementation, and encouraging support at combined CalPERS and CalSTRS Utilities portfolio holdings.

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[1] Environmental analysts indicate that total global GHG emission contributions are broken down as follows: 1/3 Transportation Industry; 1/3 Electric Power/Utilities Industry; 1/3 all Other industries.

[2] The California Climate Action Registry was established by California statue in 2001 as a non-profit voluntary registry to assist companies and organizations with operations within the state of California to establish GHG emissions baselines against which any future emission reduction requirements may be applied.

Initiative 4: Recognize – Corporate Disclosure Best Practices

Over the last twelve months, the Committee has referenced a desire to recognize corporate governance "Best Practices" at portfolio companies. For example, the Committee approved CalPERS' executive compensation strategic plan last November consisting of a micro-economic strategy to recognize pay for performance leaders.

Recognizing individual corporate leaders in transparency and disclosure practices will support acceptance in the marketplace. Therefore, staff recommends compiling examples of environmental transparency and disclosure "Best Practices" and report back at the June 2005 Investment Committee meeting with a plan for recognizing two environmental data disclosure corporate leaders at a CalPERS event toward the end of 2005.

Implementation: Corporate Governance Environmental Strategy

Actions taken by CalPERS as a shareowner can be instrumental in encouraging responsible corporate citizenship by the companies in which the Fund invests. Staff believes that these four initiatives to improve environmental data transparency and timely disclosure are best implemented in a measured and targeted approach. While the Strategy will require significant resources, staff believes existing corporate governance resources can effectively facilitate these four initiatives.

Therefore, in an effort to carry out a responsible and effective corporate governance environmental strategy, staff recommends CalPERS:

- Adopt the four initiatives to facilitate improved disclosure and timely reporting of environmental data and update the Investment Committee on the progress of the corporate governance environmental strategy at the June 2005 Committee meeting.

V. STRATEGIC PLAN:

This item is not a product of either the 2004-2005 Strategic or Annual Plan.

VI. RESULTS/COSTS:

As one of the largest owners of domestic and international equities, CalPERS should benefit from improved environmental data transparency and timely disclosure.

Winston Hickox
Portfolio Manager

Kelly Forrest
Investment Officer, Corporate Governance

William Sherwood-McGrew
Portfolio Manager, Corporate Governance

Christianna Wood
Senior Investment Officer

Mark Anson
Chief Investment Officer

Attachment 1

NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

FOR IMMEDIATE RELEASE
February 3, 2004

CONTACT: Mitchel Benson
(916) 653-4052

STATE TREASURER PHIL ANGELIDES LAUNCHES 'GREEN WAVE' ENVIRONMENTAL INVESTMENT INITIATIVE TO BOLSTER FINANCIAL RETURNS, CREATE JOBS AND CLEAN UP THE ENVIRONMENT

Landmark Environmental Initiative Will Boost Growing Economic Sector and Reduce Risks to Pensioners and Taxpayers

PALO ALTO, CA – State Treasurer Phil Angelides, joined today by environmental, labor and business leaders, launched a landmark environmental *Green Wave* initiative to bolster financial returns, create jobs and clean up the environment.

The four-pronged initiative calls on the State's two large public pension funds – the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) – to marry the jet stream of finance and capital markets with public purpose by committing $1.5 billion to investments in cutting-edge technologies and environmentally responsible companies. The goal of the initiative is to improve long-term financial returns for pensioners and taxpayers through investments in the burgeoning environmental technology sector, while also reducing the risks to the pension funds posed by corporate environmental liabilities.

"Now is the time for California to catch the 'Green Wave' of smart, environmental investments and responsible corporate environmental leadership," Angelides – who sits on the boards of both CalPERS and CalSTRS – said at a news conference here at Nanosolar Inc., a maker of cutting-edge, lightweight plastic solar cells. "The environmental technology sector is expanding rapidly in response to the growing worldwide need for clean water, efficient energy sources, and other sustainable environmental solutions.

"We need to move forward now," the Treasurer added, "so California and our pension funds can capture this economic growth and create jobs, while at the same time clearing the air, land and water of pollutants through advanced solutions to our environmental challenges."

The Treasurer's *Green Wave* initiative calls on CalPERS and CalSTRS – the nation's largest and third largest public pension funds, with combined assets of $250 billion – to implement the following four-pronged plan:

> **Demand Environmental Accountability and Disclosure.** Using their financial clout in the marketplace, and building on their track record of corporate governance leadership, CalPERS and CalSTRS would prod corporations to

provide meaningful, consistent and robust reporting of their environmental practices, risks and potential liabilities. Through a new environmental governance program, CalPERS and CalSTRS would encourage companies – through dialogue, shareholder resolutions and other actions – to improve their environmental operations and reduce their environmental risks and liabilities. As part of this effort, California's pension funds would also join with other major U.S. investors to urge more comprehensive corporate reporting of environmental practices and liabilities. The coalition's effort would include such actions as urging the Securities and Exchange Commission to strengthen environmental disclosure rules, and seeking corporate reporting on such critical financial factors as climate risk assessment and global warming.

"Shareholders need to know if the companies they own are going down the prudent path, by adopting environmental practices that will enable them to survive and thrive in a world of increasing environmental concern and regulation," Angelides said. "Or, whether those companies are taking the path of denial, risk, liability and cost."

Target Private Investment in Environmental Technologies. Urge CalPERS and CalSTRS to invest a combined $500 million in private equity investments, venture capital, and project financing to develop "clean" technologies that can provide the pension funds with positive, long-term returns, and that can create jobs and economic growth in California in the years ahead. Across the globe, demographic trends, public awareness, environmental crises and increased regulation and public policy attention are driving growth in the clean technology industry. Riding this "Green Wave" of technological innovation will allow CalPERS and CalSTRS to help build an industry critical to the State and nation, while earning those positive returns for pensioners and taxpayers and addressing environmental problems.

Invest in Stocks of Environmentally Responsible Companies. Urge CalPERS and CalSTRS to invest a combined $1 billion of their stock portfolios into environmentally screened funds through leading active public equity investment managers with proven track records. An increasing number of recent investment research studies have shown that environmentally screened funds are out-performing their non-screened counterparts. Investing in such funds will not only provide CalPERS and CalSTRS with the opportunity for enhanced financial returns, but will also send a strong signal to corporations about the added value of responsible, forward-looking environmental practices. Under this proposal, the performance of any manager selected must equal or exceed that of the funds' existing, active managers.

Audit real estate portfolios to boost long-term value. Call on CalPERS and CalSTRS to undertake a comprehensive audit of their respective real estate investments to determine whether the investments are maximizing their opportunities to use clean energy, energy efficiency and green building standards and practices that reduce long-term costs and boost long-term value. CalPERS and CalSTRS have nearly $16 billion invested in real estate and property in California, the nation and 22 countries throughout the world. CalPERS and CalSTRS own nearly 160 million square feet of office and industrial space alone.

Dr. Bob Epstein, co-founder of Environmental Entrepreneurs (E2), praised the Treasurer's initiative. "We believe the efforts announced today will provide superior financial returns for CalPERS and CalSTRS," said Epstein, whose organization is a national nonpartisan coalition of business leaders who support good environmental policy based on its economic merits. E2's environmental partner is the Natural Resources Defense Council. "From renewable energy to new types of materials," Epstein added, "the growing 'clean technology' markets can provide California economic growth, new jobs and more efficient businesses while also helping to make a cleaner, healthier environment."

Angelides said the *Green Wave* initiative is an outgrowth of a yearlong series of roundtable discussions with environmental technology and financial leaders across the nation, and the Institutional Investor Summit on Climate Risk held last November at the United Nations in New York, presented by CERES, a national coalition of investment funds, environmental organizations and public interest groups. The Treasurer was a speaker at the meeting.

Mindy Lubber, executive director of CERES, said today of Angelides' initiative, "This is a visionary plan of concrete actions investors can take to mitigate off-balance sheet risks posed by environmental threats like climate change, and to encourage investment in new opportunities. Treasurer Angelides' leadership should inspire other major investors to act to assure a safer, sounder, and more profitable future."

Also lending his support today to the *Green Wave* initiative was Art Pulaski, Executive Secretary Treasurer of the California Labor Federation. Pulaski pointed out that the Treasurer's proposal complements the California Apollo Project, an environmental program announced today in Los Angeles by Pulaski and a coalition of other labor, environmental and community group leaders. "The California Apollo Project is about changing our future," Pulaski said, "We need to see strong public investment in real job creation – not careless governmental spending or corporate tax breaks that create long term deficits. CalPERS and CalSTRS can see great investment returns, benefiting our public employees, and at the same time building the right state economy."

In crafting the new initiative, Angelides said he was also building on the lessons learned from the recent wave of corporate scandals. "There is a parallel between the corporate CEO who cooks the books to pump up the value of his company's stock while he is simultaneously looting the firm for his own gain," the Treasurer said, "and a corporation that increases its returns for a few quarters by exploiting the environment. The corporation that exploits the environment leaves behind *both* a damaged environment and, ultimately, a degraded company."

At the Treasurer's request, CalPERS has already begun studying a clean technology private equity program, with a goal of fashioning a broad, flexible and diversified portfolio of investments that can achieve positive returns in the emerging clean technology investment arena. The CalPERS staff on March 15 is expected to report on its research to the board.

In addition, the Treasurer has asked both CalPERS and CalSTRS to put the proposed initiative on their respective agendas for later this spring and summer. And on Wednesday, CalSTRS is expected to formally schedule those spring and summer dates for Investment Committee discussion and possible action.

The Treasurer's latest initiative follows upon his previous efforts that seek to achieve positive financial returns while serving a beneficial public purpose.

In 2000, for example, Angelides launched the *Double Bottom Line* initiative that has targeted California's state and pension investments in urban neighborhoods, yielding positive returns while spurring economic development in California communities. Since then, California has directed more than $9 billion in capital into these communities, from equity investments in urban businesses to mortgages for working Californians in urban and rural neighborhoods, with initial returns showing positive gains on those investments, particularly during a time when the stock market tumbled.

Then in 2002, the Treasurer unveiled the *Power of the Purse* initiative, to focus the shareholder power of California's pension and investment funds in bringing about meaningful corporate governance reform and improved investment returns. This initiative recognizes that California's taxpayers and pensioners benefit when corporate standards are high and corporate operations are transparent for all to see.

# # #

NOTE: Please visit the Treasurer's website, www.treasurer.ca.gov, for additional information on today's announcement, including: fact sheets on each of the four facets of the Treasurer's *Green Wave* initiative; a copy of the Treasurer's Nov. 21, 2003 United Nations' speech at CERES' Institutional Investor Summit on Climate Risk; and bios of the speakers who attended today's news conference.

Attachment 2

STEVE WESTLY
California State Controller

November 17, 2004

Sean Harrigan, Board President and
Members, CalPERS Board of Administration
400 P Street
Sacramento, California 95814

Dear President Harrigan and Members:

With the Kyoto Protocol poised to become effective in early 2005,the CalPERS Board must proactively position itself in this new regulatory environment. Today's workshop offers an excellent opportunity for the Board to develop an effective path forward on this important issue.

First, CalPERS should immediately leverage its efforts by signing onto the Carbon Disclosure Project (CDP), an international initiative to improve the transparency of business risk associated with climate change. The CDP, based in the European Union, sends an annual questionnaire to the world's 500 largest corporations regarding their views on the potential risk of climate change, and their ability to measure and reduce carbon emissions. Ninety-five public and private fund managers, with a total $10 trillion in assets, have already signed on to the initiative, which would provide CalPERS with a reliable source for information about environmental risks.

I also recommend the following two additional steps:

- Host a Round Table with other Financial Industry Investment Partners: Join with other institutional investors to host a round table meeting with representatives from banks and insurance companies on the impact of carbon emission regulations on public equity markets. Financial and insurance institutions have assets of over $35 trillion and face similar challenges to institutional investors when deciding where to invest these assets.

- Advocate for West Coast Fiduciary Conference on Climate Risk: Support a California-based pension fund conference on the fiduciary's role in evaluating the risks and opportunities associated with climate change. Last September, The Investors Network on Climate Risk partnered with the Kennedy School of Government at Harvard University to host, "Sustainability and Risk: Climate Change and Fiduciary Duty for the Twenty-First Century Trustee." The conference addressed key fiduciary issues including legal responsibilities, material environmental risk, and potential pension fund actions. California pension fund trustees also need an opportunity to learn more about these issues.

300 Capitol Mall, Suite 1850, Sacramento, CA 95814 ♦ P.O. Box 942850, Sacramento, CA 94250
Phone: (916) 445-2636 ♦ Fax: (916) 445-6379 ♦ Web Address: www.sco.ca.gov ♦ E-Mail: steve@sco.ca.gov

In closing, I commend Winston Hickox for preparing such a comprehensive environmental workshop for the Board. Working together, the Board can ensure that our members' assets are well positioned to provide maximum return and benefit.

Sincerely,

Steve Westly

STEVE WESTLY
California State Controller

SW: jh/js

cc: Fred Buenrostro, Chief Executive Officer
Mark Anson, Chief Investment Officer
Winston Hickox, Investment Manager

CARBON DISCLOSURE PROJECT

1 November 2003

57A Farringdon Road
London, EC1M 3JB
United Kingdom
Email: info@cdproject.net
www.cdproject.net

«Contact_Name1»
«Title1»
«Company_name»
«Address1»
«Address2»
«Postcode»
«Country»

Greenhouse Gas (GHG) Emissions

Dear «Salutation»

As institutional investors representing $9 trillion funds under management, we are continually examining our portfolios in order to assess the potential risks and opportunities stemming from climate change. We want to improve our understanding of possible material impacts on investment value driven by climate change related to:

Taxation and regulation
Technological innovations
Shifts in consumer attitude and demand
Changes in weather patterns

As current and prospective investors in «Company_name», we would be grateful if you could complete the attached questionnaire, which has been sent to the world's 500 largest quoted companies by market capitalisation. This is the second iteration of this request (71% response rate in 2002). Further information is attached.

NOTE: 'A' OR 'B' BELOW WAS USED DEPENDING ON CIRCUMSTANCE:

A: We would like to take this opportunity to thank you for your response last year and look forward to receiving updated information this year.

B: Your company did not answer our questionnaire last year. We hope you will be able to do so on this occasion and look forward to receiving your response.

We recognise it can be time-consuming to answer a questionnaire in addition to your current environmental reporting. However, these questions are focused on climate change, updated from last year to reflect recent developments, and the answers will provide valuable investment-relevant information that is currently difficult to obtain. Your cooperation will be greatly appreciated.

Yours sincerely

Paul Dickinson
Coordinator writing on behalf of the institutional shareholders listed overleaf.

1 November 2003

Institution

Abbey National plc
Aberdeen Asset Managers
ABP
Acuity Investments
AMP Henderson Global Investors
Asahi Life Asset Management Co., Ltd
ASN Bank
AXA
Bank Sarasin & Cie AG
BNP Paribas Asset Management
Calvert
Catholic Superannuation Fund (CSF)
Central Finance Board of the Methodist Church
CERES
Commerzbank
Conneticut Retirement Plans and Trust Fund
Co-operative Bank
Cooperative Insurance Society
Credit Agricole Asset Management
Credit Suisse Group
Deutsche Asset Management, UK
Development Bank of Japan
Dexia Asset Management
Domini Social Investments
Dresdner RCM Global Investors
Environment Agency Pension Fund, UK
Ethical Funds
First Swedish National Pension Fund, AP1
Fleet
Fortis Investments
Gartmore Investment Management plc
Henderson Global Investors
Hermes Investment Management
HSBC Holdings
HVB Group
ING Investment Management Europe
Insight Investment
Interfaith Centre on Corporate Responsibility
ISIS Asset Management plc
Jupiter Asset Management
KBC Asset Management
Local Authority Pension Fund Forum
London Pension Fund Authority
Meritas Financial Inc
Merrill Lynch Investment Managers
Mitsubishi Securities
Morley Fund Management
Munich Re
Neuberger Berman
Newton Investment Management Limited
Ontario Teachers Pension Plan
Pax World Funds
PGGM
Public Sector Superannuation Scheme / Commonwealth Superannuation Scheme (PSS/CSS)
Rabobank Group
Railpen Investments
Real Assets Investment Management Inc
Robeco
Rockefeller & Co Socially Responsive Group
SAM Sustainable Asset Management
Sanlam Investment Management
Sanpaulo Wealth Management
Societe Generale Asset Management UK Ltd
Sogeposte

State Street Global Advisors Limited
State Treasurer of Vermont
Storebrand Investments
Swiss Re
Treasurer of the State of Maine
Trillium Asset Management
Triodos Bank
Tri-State Coalition for Responsible Investment
UBS Global Asset Management (UK)
Union Investment
Universities Superannuation Scheme
VicSuper Proprietary Limited
Walden Asset Management
Wells Fargo & Co.
West AM

1 November 2003

Carbon Disclosure Project (CDP) Greenhouse Gas Emissions Questionnaire

We request as full a reply as possible to the following questions by no later than 29 February 2004. Please send responses electronically in English to the Project Coordinator at info@cdproject.net. If you already publish the relevant information, please indicate for each question how to access this. If at this stage you can only provide indicative information we would still welcome this; "a best guess" is more valuable to us than no response. If you are unable to answer any of these questions please state the reasons why.

Governance and Strategy:

1. Do you believe climate change, the policy responses to climate change and/or adaptation to climate change represent commercial risks and/or opportunities for your company?
   - If yes, specify the implications, detail the strategies adopted and actions taken to date.
   - If no, please indicate why.

   Do you have a strategy regarding preparation for emerging greenhouse gas emissions regulation and trading regimes, in particular the European Union Emissions Trading Scheme?
   - If yes, specify the implications, detail the strategies adopted and actions taken to date.
   - If no, are you planning on doing so, and if so when?

3. Do you allocate responsibility for managing climate change related issues?
   - If yes, what is the title of the person with this responsibility?
   - If no, are you planning on doing so, and if so when?

Measurement:

Please specify the methodology you employ for measuring emissions, and explain if these data are audited and/or externally verified.

4. What is the quantity of annual emissions of the six main GHGs (CO_2, CH_4, N_2O, HFCs, PFCs and SF_6) produced by your operations in the following areas (Note 1)?
   - Globally.
   - Annex B of the Kyoto Protocol.
   - EU Emissions Trading Directive.

5. Products and services: Do you measure the emissions associated with both the use and disposal of your products and services (Note 2)?
   - If yes, please provide further information.
   - If no, are you planning on doing so, and if so when?

6. Supply chain: Do you measure the emissions generated by your supply chain?
   - If yes, please provide further information including details of the boundaries you apply.
   - If no, are you planning on doing so, and if so when?

Management:

7. Do you have emission reduction programmes in place?
   - If yes, please detail explicit targets relating to Qs.4/5/6 and progress made to date.
   - If no, are you planning on doing so, and if so when?

8. Please explain how you could reduce your GHG emissions to meet national, regional and international targets for reductions. What are your estimated costs or savings associated with achieving these targets?

9. Have you considered scenarios involving reductions in GHG emissions beyond existing national, regional and international targets? If yes please detail these scenarios, and your estimated costs or savings associated with each one. If no, are you planning on doing so, and if so when?

Note 1: If you do not use a methodology for measuring emissions we suggest you follow guidelines such as those produced by the World Business Council for Sustainable Development (www.ghgprotocol.org) as a basis for preparing your response.

Note 2: For example, if you are a financial services company, do you take into account the emissions related risks and/or opportunities of the companies you invest in, lend to, or insure.

Report on Emissions Reduction and Competitive Positioning Strategy 2005 – Ford Motor Company

Whereas:

In the U.S., passenger cars and light trucks account for one-fifth of all annual U.S. carbon dioxide emissions linked to climate change.

Ford Motor Company bears the auto industry's second-highest "carbon burden" – or total carbon dioxide emissions associated with its fleet, due in part to the poor fuel efficiency of its products, not the size of its fleet.

Worldwide consensus that greenhouse gas (GHG) emissions need to be reduced continues to grow, with ratification of the Kyoto Protocol causing many countries to enact limits on these emissions. Already, the European Union and some U.S. states have enacted similar limits, and Canada's reduction target of 25% is due by the end of the decade.

In September 2004, the California Air Resources Board adopted regulations requiring vehicle emissions reduction in California; other states will follow. Roughly one-quarter of the US vehicle market is currently required to meet California's standards, to which the greenhouse gas regulations will eventually be added.

Fuel-efficiency standards more stringent than U.S. standards have recently been approved in China, the fastest-growing passenger car market in the world. Most of Ford's SUVs sold today in the U.S. would be illegal for sale in China by 2008.

These standards are creating markets favorable to automakers with lower carbon burdens and agility in introducing clean technology vehicles.

Competitors Honda and Toyota, already offering vehicles with better than average fuel economy, have been moving quickly to introduce lower-emission advanced technology vehicles to consumers. Toyota successfully introduced hybrid vehicles to the U.S. market three model years ago, and has already moved to the second generation of hybrid technology. Toyota has outsold Ford worldwide for the first time in history (USA Today 11/11/03).

In January, 2004, Ford announced that it would be forced to purchase patent rights from Toyota in order to launch its first hybrid-technology vehicle, a hybrid version of the Escape SUV.

While Ford is investing in advanced technologies such as hybrids and hydrogen fuel cells and plans to bring some advanced technologies and some improved conventional technologies to market in select products, our Company has not reported to investors its expectations for reductions in Ford's overall carbon burden or its ability to meet near-and long-term emerging global competitive and regulatory scenarios.

Resolved: The shareholders request that a committee of independent directors of the Board assess (a) how the Company will ensure competitive positioning based on emerging near and long-term GHG regulatory scenarios at the state, regional, national and international levels, (b) how the Company plans to comply with California's greenhouse gas standards, and (c) how the Company can significantly reduce greenhouse gas emissions from its national fleet of vehicle product (using a 2004 baseline) by 2014 and 2024, and report to shareholders (at reasonable cost and omitting proprietary information) by September 1, 2005.

SUPPORTING STATEMENT

We believe management has a fiduciary duty to carefully assess and disclose to shareholders all pertinent information on its response associated with climate change, particularly as it relates to an emerging business reality.

Report on Emissions Reduction and Competitive Positioning Strategy
2005 – General Motors

Whereas:

In the U.S., passenger cars and light trucks account for one-fifth of all annual U.S. carbon dioxide emissions linked to climate change.

General Motors bears the auto industry's highest "carbon burden" – or total carbon dioxide emissions associated with its fleet, due in part to the poor fuel efficiency of its products, not the size of its fleet.

Worldwide consensus that greenhouse gas (GHG) emissions need to be reduced continues to grow, with ratification of the Kyoto Protocol causing many countries to enact limits on these emissions. Already, the European Union and some U.S. states have enacted similar limits, and Canada's reduction target of 25% is due by the end of the decade.

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Fuel-efficiency standards more stringent than U.S. standards have recently been approved in China, the fastest-growing passenger car market in the world. Most of GM's SUVs sold today in the U.S. would be illegal for sale in China by 2008.

These standards are creating markets favorable to automakers with lower carbon burdens and agility in introducing clean technology vehicles.

Competitors Honda and Toyota, already offering vehicles with better than average fuel economy, have been moving quickly to introduce lower-emission advanced technology vehicles to consumers. Toyota successfully introduced hybrid vehicles to the U.S. market three model years ago, and has already moved to the second generation of hybrid technology. Toyota is now poised to sell more cars in the U.S. than Chevrolet and Ford combined (Associated Press 9/5/03).

In January, 2004, General Motors delayed the production of its first full hybrid vehicle, the Saturn Vue SUV, in order to develop new technologies not already patented by Toyota.

While GM is investing in advanced technologies such as hybrids and hydrogen fuel cells and plans to bring some advanced technologies and some improved conventional technologies to market in select products, our Company has not reported to investors its expectations for reductions in GM's overall carbon burden or its ability to meet near-and long-term emerging global competitive and regulatory scenarios.

Resolved: The shareholders request that a committee of independent directors of the Board assess (a) how the Company will ensure competitive positioning based on emerging near and long-term GHG regulatory scenarios at the state, regional, national and international levels, (b) how the Company plans to comply with California's greenhouse gas standards, and (c) how the Company can significantly reduce greenhouse gas emissions from its national fleet of vehicle product (using a 2004 baseline) by 2014 and 2024, and report to shareholders (at reasonable cost and omitting proprietary information) by September 1, 2005.

SUPPORTING STATEMENT

We believe management has a fiduciary duty to carefully assess and disclose to shareholders all pertinent information on its response associated with climate change, particularly as it relates to an emerging business reality.